Credit Cards

Substitute for cash, NOT substitute for ability to pay

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Did you know?

• In 2002, 83% of undergraduates nationwide had at least one credit card, 47% had four or more. (Nellie Mae, April 2002)

• In 2003, households incurred $412 billion in credit card charges. (USA Today 3/18/2004)

• In 2004, 1.6 million people filed for bankruptcy. (www.bankrupcyaction.com)
Shop for the “right” card

Compare:

• APR – cost of the credit
• Periodic rate – rate applied to your outstanding balance
• Annual fees - $25 to $100
• Transaction fees – cash advances, late payments, exceeding credit limit
• Grace period – time to avoid a finance charge
• Industry average grace period
  30 days 5 years ago
  22 days now

• Issuers are increasingly using penalty fees to raise revenue

• Being late with a payment one time can trigger large late fees and an increased interest rate
Example: If you bought a $400 leather jacket and charged it on a credit card with an 18% interest rate and made the minimum monthly payment of $10…

It would take 5.2 years to pay it off.

TOTAL COST $615.41
Example: If you bought a $2000 big screen TV and charged it on a credit card with an 18% interest rate and made the minimum monthly payment of $50 …

It would take you 18.5 years to pay it off

TOTAL COST $4,615.43
Example: If you bought a $2000 big screen TV and charged it on a credit card with an 13% interest rate and made the minimum monthly payment of $50 …

It would take you 13.8 years to pay it off

TOTAL COST  $3,350.60
www.bankrate.com
– Credit card calculator
When to use Credit Cards

• Emergencies (car quit out of town)

• **Securing** hotel rooms or rental cars

• Establishing credit
Be Careful!!!!
Credit Report v. Credit Score
Credit Report
(Usually 7 years of info)

Includes:

• Accounts - #s, balances, open/closed
• Inquiries – requests for your credit
• Public record items –
  Collection agency
  Bankruptcy
  Tax liens
  Court judgments
Credit Score

Factors:

- Past payment history (35%)
- Amount you currently owe (30%)
- Length of credit history (15%)
- New credit (10%)
- Types of credit in use (10%)

www.myfico.com
Establishing Good Credit

• Acquire one credit card with a low interest rate and low credit limit
  – Pay it off each month

• Establish a relationship with a bank and keep the account open and active

• Opt out of pre-approved CC offers and do not fill out credit applications
Stop Pre-approved CC Offers

1-888-5-OPTOUT
Credit Report/Credit Score

Affects:

• Ability to open a bank account
• Ability to borrow for home or car
• Ability to rent an apartment
• Ability to get insurance
• Ability to get a job
Good Sources of Information

• Federal Trade Commission web site
  – Article “Choosing and Using Credit Cards”

• www.experian.com
  – Credit education
    • Understanding credit